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UNCLAS SECTION 01 OF 03 JAKARTA 009941

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SUBJECT: INDONESIA TRADE AND INVESTMENT HIGHLIGHTS - JULY  
2006

1. Summary: The Indonesian Chamber of Commerce met with members of Indonesia's Parliament on July 5 and voiced general support for the Government of Indonesia's (GOI) draft investment law. The Minister of Trade announced on July 26 that the GOI will establish an Investment Policy Committee and an accompanying full-time secretariat, staffed by private sector consultants and senior government officials. On July 17, Indonesia and Singapore established a Joint Steering Committee to implement a bilateral Framework Agreement, signed on June 25, to create a Special Economic Zones (SEZ) in Indonesia's islands of Batam, Bintan and Karimun. The Ministry of Industry on July 11 announced that the GOI is considering tax allowances to encourage investment in Indonesia's petrochemical industry. The Indonesia Investment Coordinating Board (BKPM) said on July 11 that during the first half of 2006, 24 foreign investors have submitted plans to establish pharmaceutical factories in Indonesia. The Minister of Trade announced on July 10 that the GOI will extend its rice import ban until December 2006. Minister of Finance Sri Mulyani told Parliament on July 5 that the GOI will make further revisions to its draft customs law to include special provisions for special economic zones. The Indonesian Textile Association (API) admitted on July 17 that several of its former members had engaged in illegal transshipment of textiles and garments through Indonesia to the United States. Car sales in Indonesia showed some sign of recovery in June. End summary.

Business Community Discusses Investment Law with Parliament  
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2. Members of the Indonesian Chamber of Commerce (KADIN) met with Parliament's Commission VI on July 5 to discuss the GOI's draft investment law. KADIN members told the Commission that their organization generally supports the draft investment law and the government's efforts to move from an investment approval to an investment registration regime. They expressed concern, however, that the new law did not contain specific investment incentives. KADIN members said that more clearly defined tax holidays, tax allowances and other beneficiary tax deductions would improve investor interest and confidence in Indonesia.

GOI to Establish Investment Policy Secretariat  
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3. The Ministry of Trade on July 26 held a public outreach

forum for foreign and domestic investors, business associations and the diplomatic community to discuss the GOI's draft new investment law. Minister of Trade Mari Pangestu told the gathering that the GOI intended to establish a government Committee on Investment Policy with a full-time secretariat to better coordinate investment policy and resolve investment disputes. The government plans to staff the secretariat with private sector investment professionals and senior government officials from relevant agencies.

#### Indonesia-Singapore Establish Joint Steering Committee

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14. Indonesia and Singapore established on July 17 a Joint Steering Committee (JSC) to implement the bilateral Framework Agreement on Economic Cooperation, signed on June 25, to develop a Special Economic Zone (SEZ) in Indonesia's islands of Batam, Bintan and Karimun. Indonesian Coordinating Minister for Economy Boediono and Singaporean Minister of Trade and Industry Lim Hng Kiang will chair the JSC and a working group will define concrete steps to implement the Framework Agreement. Singapore will provide support in the areas of investment promotion and marketing, training of SEZ administrators, and vocational training.

15. The JSC will aim to improve the investment climate in Batam, Bintan and Karimun by reviewing taxation rules, improving services to investors, simplifying customs and visa procedures, and providing more integrated service systems. Separately, Minister of Trade Pangestu announced that Batam will soon establish the country's first on-line, one-stop facility for business registration and licensing,

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taxes, and customs. The Minister expects the facility to conduct a first simulation of its new services sometime by the end of July.

#### GOI Considers Tax Allowance for Chemical Sector

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16. Ministry of Industry Director General for Agro and Chemical Industry Benny Wahjudi announced on July 11 that the government is considering offering a five-to-six year, 30 percent tax holiday for investors in the chemical sector. The move would specifically aim to encourage greater investment in Indonesia's petrochemical sector. According to Wahjudi, Indonesia needs at least two more olefin plants to meet domestic demand. Indonesia reportedly imports 1.4 million tons of olefin per annum (mostly from Japan), with domestic production meeting only 15 percent of local demand.

#### Investors to Build Pharmaceutical Factory

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17. The Indonesian Investment Coordinating Board (BKPM) announced on July 11 that, in the first half of 2006, 24 separate foreign investors registered investment plans to build new pharmaceutical factories in Indonesia worth up to USD 537.8 million. According to the BKPM, the investors are seeking to take advantage of Indonesia's large domestic market and Association of Southeast Asian Nations (ASEAN) commitments that obligate all ASEAN member states to open their markets to prescription drugs and ASEAN produced pharmaceutical products by 2008. At present, Indonesia's existing 198 pharmaceutical factories are controlled by four state-owned enterprises, 31 foreign companies, and a number of private local enterprises.

#### GOI Extends Rice Import Ban

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18. Minister of Trade Pangestu announced on July 10 that the GOI has extended its rice import ban until the end of 2006 due to an expected surplus in domestic production. Minister

of Agriculture Anton Apriantono expressed optimism that Indonesia would reach its 2006 production target of 54.75 million metric tons of unhusked rice and a 109,000 tons surplus would obviate the need for short-term rice imports. The GOI first imposed the current rice import ban in January 2004 and the GOI reviews the ban every six months.

#### GOI to Revise Draft Customs Law

¶9. Minister of Finance Sri Mulyani and Director General for Customs and Excise Anwar Suprijadi told Parliament's Commission VI on July 5 that the government intends to further revise its draft customs law to include provisions regulating import duties for SEZs. Senior GOI officials continue to discuss plans to establish as many as eight SEZs across Indonesia as a means of speeding up implementation of investment reforms and attracting foreign and domestic direct investment. According to Mulyani, the current draft law aims improve customs services, reduce bureaucratic delays and help improve the overall business climate in Indonesia. The GOI has set a deadline of the end of 2006 for the passage of the law. It is uncertain whether the proposed revisions will delay its passage into 2007.

#### Garment Industry Admits Transshipments Took Place

¶10. The Indonesian Textile Association (API) Executive Secretary Ernovian G. Ismy admitted on July 17 that four

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former API members had illegally transshipped textiles and garments through Indonesia to Mexico and eventually on the United States during 2005. Ismy did not comment as to whether API or the GOI intended to punish these violators. API initiated its investigation into the industry at the behest of the Minister of Trade.

#### Car Sales Show Modest Recovery

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¶11. Indonesian car sales increased 6.4 percent in June to 24,564 units from 23,022 units in May, signaling some recent market recovery. On June 11, Chairman of the Indonesian Automotive Industries Association (Gaikindo) Bambang Trisulo expressed optimism that this positive trend would continue into July. In the wake of sharp fuel price and interest rate increases, total car sales for the first semester of 2006 dropped to 149,577, a 50 percent decline from 295,776 units during the same period of 2005. Automobile industry analysts say that higher fuel prices and interest rates are causing consumers to shift to purchasing smaller and more fuel-efficient vehicles.

Table 1: Indonesia Trade Performance Jan-June 2006:  
(in USD billions)

	Jun 2005	Jun 2006	Pct YoY	2005 Jan- Jun	2006 Jan- Jun	Pct YoY
Exports	6.7	8.5	26.8	40.7	46.9	15.2
Oil and Gas	1.5	1.8	20.0	8.8	10.4	18.1
Non-oil and Gas	5.2	6.7	28.8	31.9	36.5	14.4
Imports	4.7	5.6	19.4	28.4	28.8	1.4
Oil and Gas	1.3	2.1	61.5	7.9	8.9	12.6
Non-oil and Gas	3.4	3.5	2.9	20.5	19.9	-2.9
Balance of Trade	2.0	2.9	45.0	12.3	18.1	47.1

Table 2: Indonesia's Top 10 Non-Oil and Gas Export  
January to June 2006 (in USD billions)

Commodity	2005 Jan- Jun	2006 Jan- Jun	Percent of Total 2006
Electrical tools	3.53	3.55	9.73
Coal	1.99	2.69	7.37
Rubber and rubber products	1.68	2.61	7.16
Machinery/mechanical tools	2.21	1.94	5.33
Copper, Ash and Residues	1.48	1.65	4.54
Garment - not Knitted	1.50	1.64	4.50
Wood and wood products	1.64	1.53	4.20
Household and lighting	1.01	1.05	2.88
Footwear	0.72	0.87	2.39
Fish and Shrimp	0.75	0.82	2.26
Total top 10 products	16.55	18.39	50.37
Other	15.36	18.12	49.63
Total non-oil and gas exp	31.91	36.51	100.00

Table 3: Indonesia's Main Non-Oil and Gas  
Export Destinations  
January to June 2006 (FOB value, in USD billions)

Country of Destination	2005 Jan-Jun	2006 Jan-Jun	Percent of Total (2006)
Japan	4.73	5.29	14.51
U.S.A.	4.63	5.20	14.27
Singapore	3.54	3.83	10.50
China	1.85	2.39	6.56
Malaysia	1.54	2.03	5.56
South Korea	1.16	1.43	3.93
European Union	4.92	5.48	15.02
Taiwan	0.84	1.03	2.83
Australia	0.52	0.70	1.92
Others	8.15	9.09	24.90
Total	31.91	36.51	100.00

Source: Central Bureau of Statistics (BPS)

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